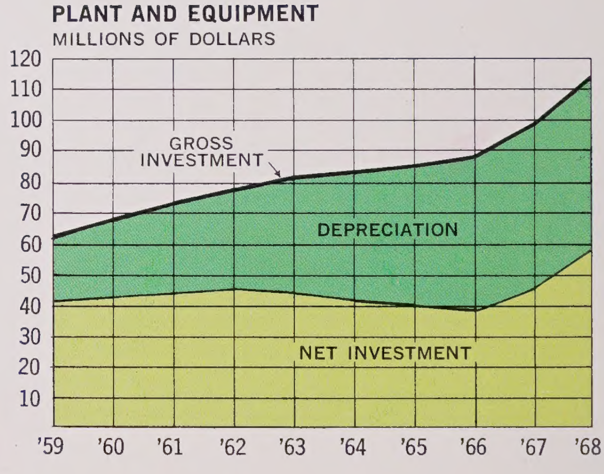
ANNUAL REPORT 1968

OUTBOARD MARINE *Corporation*


PLANT AND EQUIPMENT
MILLIONS OF DOLLARS
GROSS INVESTMENT
DEPRECIATION
NET INVESTMENT
120
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80
70
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10
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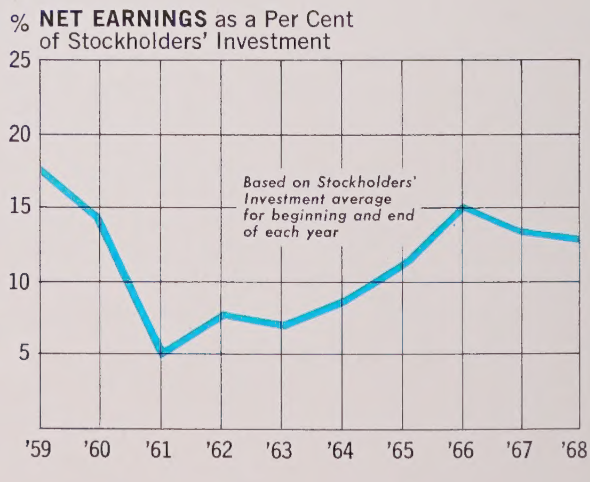

% NET EARNINGS as a Per Cent of Stockholders' Investment
Based on Stockholders' Investment average for beginning and end of each year
25
20
15
10
5
'59
'60
'61
'62
'63
'64
'65
'66
'67
'68

BOARD OF DIRECTORS

RALPH EVINRUDE, *Chairman of the Board and Chairman of the Executive Committee*
JAMES B. BRIGGS, *Vice President*
FINN T. IRGENS, *Vice President*
URBAN T. KUECHLE, *President, A. O. Smith Corporation*
ISADORE LEVIN, *Partner, Butzel, Levin, Winston & Quint*
ROLAND MERRELL, *Vice President and Director, First National Bank of Stuart, Florida*
CHARLES E. NELSON, *President, Waukesha Motor Company*
JOSEPH L. RAYNIAK, *Executive Vice President*
WILLIAM C. SCOTT, *President*
ROBERT F. WALLACE, *Vice President*

OFFICERS

RALPH EVINRUDE, *Chairman of the Board and Chairman of the Executive Committee*
WILLIAM C. SCOTT, *President and General Manager*
JOSEPH L. RAYNIAK, *Executive Vice President*
HAROLD L. BOURDON, *Vice President—Manager, Gale Products Division*
JAMES B. BRIGGS, *Group Vice President—Non-Marine Products*
JOHN R. CLARKE, *Vice President—Industrial Relations*
W. CLAY CONOVER, *Vice President—Manager, Johnson Motors Division*
HARRIS O. EWALD, *Vice President—Manager, OMC Boats Division*
FINN T. IRGENS, *Vice President—Research and Engineering*
EUGENE W. KREAGER, *Vice President—Special Manufacturing Development*
HOWARD F. LARSON, *Vice President—Sales and Marketing, Marine Products*
CURTIS T. MORRIS, *Vice President—Manager, Cushman Motors Division*
ROBERT H. SCOTT, *Vice President—Manager, Evinrude Motors Division*
CHARLES D. STRANG, *Group Vice President—Marine Products*
ROBERT F. WALLACE, *Vice President—Finance*
EDGAR W. HOLLMANN, *Treasurer*
SHERWOOD L. RICHARDSON, *Controller*
JOHN R. SEEGER, *Secretary*
KEITH A. POPE, *Assistant Treasurer*
EDWARD J. HEALY, *Assistant Secretary*
GRACE F. SCHNEIDER, *Assistant Secretary*

DIVISIONS

Cushman Motors, CURTIS T. MORRIS, *Manager*
Evinrude Motors, ROBERT H. SCOTT, *Manager*
Gale Products, HAROLD L. BOURDON, *Manager*
Johnson Motors, W. CLAY CONOVER, *Manager*
OMC Boats, HARRIS O. EWALD, *Manager*

SUBSIDIARY COMPANIES

Outboard Marine Corporation of Canada Ltd., THOMAS P. McMILLAN, *President*
Pioneer Saws Ltd., J. DOUGLAS MENNELL, *President*
Outboard Marine International S.A., Outboard Marine International, Inc., JAMES J. BUTLER, JR., *President*
Outboard Marine Belgium S.A., GERALD K. AHLERS, *Administrateur-Delegue (President)*
Outboard Marine Australia Pty. Limited, FRED W. MILTON, *General Manager*
Ryan Equipment Co., EARL W. NYSTROM, *President*
Trade Winds Company, Inc., ROBERT L. STEINMETZ, *General Manager*

TRANSFER AGENT First National City Bank of New York, N. Y.
REGISTRAR Bankers Trust Company, New York, N. Y.
STOCK EXCHANGE REGISTRATION New York Stock Exchange
PRINCIPAL EXECUTIVE OFFICE 100 Pershing Road, Waukegan, Illinois

CONTENTS

HIGHLIGHTS OF THE YEAR:

	1968	1967*
Year Ended September 30:		
Net sales	$280,182,000	$236,494,000
Net earnings before income taxes	30,154,000	28,359,000
% to sales	10.8%	12.0%
Net earnings	15,662,000	15,375,000
Net earnings per share	$1.95	$1.92
Dividends per share paid on common stock	$1.00	$ .80
At September 30:		
Working capital	89,715,000	78,322,000
Long-term debt	28,664,000	12,670,000
Stockholders' equity-total	125,402,000	118,603,000
Stockholders' equity per share	$15.60	$14.79

SOURCE AND APPLICATION OF FUNDS:

	1968	1967*
Source:		
From operations—		
Net earnings	$ 15,662,000	$ 15,375,000
Depreciation	4,747,000	4,448,000
Amortization of tooling	4,595,000	2,755,000
Provision for deferred taxes	372,000	493,000
	25,376,000	23,071,000
Proceeds from sale of—		
Long-term debt	17,030,000	—
Plant and equipment (net)	146,000	326,000
Common stock (Executive Stock Option Plan and in 1967 the purchase of Trade Winds Campers, Inc.)	317,000	294,000
Other—Principally changes in deferred items	1,808,000	45,000
	44,677,000	23,736,000
Application:		
Additions to plant and equipment	16,639,000	11,177,000
Tooling expenditures	6,430,000	7,635,000
Long-term debt maturing currently	1,035,000	1,126,000
Dividends	7,981,000	6,369,000
Retirement of Ryan Equipment Co. treasury stock	1,199,000	—
	33,284,000	26,307,000
Increase (decrease) in working capital	$ 11,393,000	$ (2,571,000)

*Restated for pooling of interests with Ryan Equipment Co.

To Our Stockholders:

Net sales in the fiscal year ended September 30, 1968 totaled $280,182,143 and net earnings were $15,661,894 or $1.95 per share. This compares with 1967 sales of $236,494,020 and earnings of $15,374,561 or $1.92 per share (as restated to give effect to a pooling of interest). The temporary 10% surtax, which became effective on January 1, reduced 1968 net income by approximately $750,000 or $0.09 per share. Cash dividends amounting to $7,981,352 or $1.00 per share were paid in fiscal 1968, compared with $6,369,063, or $0.80 per share in 1967.

The markets for the company's principal products were very strong all year, reflecting a buoyant economy and to some extent the impact of a growing replacement market for outboard motors. It was the fourth consecutive year of record sales volume, and the increase of $43,688,123 over 1967 was the largest year-to-year gain in the company's history.

Extraordinary production cost incurred in meeting the unprecedented sales increase in 1968 was the major factor in restricting earnings growth. This cost was principally in overtime, premiums for subcontracted work, and lower plant efficiency due to overcapacity operations and an acute labor shortage.

The company's capital expansion and modernization program has been accelerated to provide improved productive flexibility and alleviate the labor shortages in critical areas. During 1968, capital expenditures totaled $16,638,583 of which approximately $6,000,000 represented equipment acquired in the fourth fiscal quarter. At September 30, 1968, all plants of the company had 3,874,000 square feet of manufacturing space in production, as compared to 3,311,000 square feet a year ago. There is presently under construction a 73,000 square-foot aluminum die casting plant at Galesburg, Illinois, and a 161,000 square-foot general manufacturing facility at Peterborough, Ontario, both of which are scheduled to be in operation by the second quarter of fiscal 1969. Total capital expenditures in this year are currently planned to be about $16,000,000.

On February 26, 1968, the company entered into a $35,000,000 revolving credit agreement with a group of banks. On December 31, 1970, the company will have the option to convert all or any part of this credit into a term loan, repayable in installments to December 31, 1974. As of September 30, the company had drawn down $17,000,000 which was used to finance capital expenditures and provide additional working capital. It is expected that the balance will be drawn down in 1969.

On September 3, the company acquired all of the capital stock of Ryan Equipment Co. of St. Paul, Minnesota, in exchange for 48,571 shares of OMC stock. The transaction has been treated as a pooling of interest. The company also advanced approximately $1,050,000 to Ryan to enable that company to pay off the balance of an obligation incurred in an unrelated transaction by which Ryan had reacquired some of its own shares in 1967. The principal activity of Ryan is the manufacture of equipment for cutting and rolling sod, thatching and aerating turf, and the performance of other turf care and conditioning functions except the mowing of grass. The principal customers for Ryan equipment are sod farms, golf courses, parks and similar institutional users. It is anticipated that this acquisition will constitute a profitable broadening of the company's product lines.

We have taken account of current economic forecasts which are in general agreement that the economy will remain strong in 1969, but that the first half of the year may bring some slowdown in the rate of increase in demand for consumer durable products. This factor has been given careful consideration by the company in planning production schedules. A less demanding rate of increase in output, together with the continuing expansion in capacity, should contribute materially toward re-establishing a more orderly production flow and thereby improve earnings margins in 1969. Positive steps have been taken also to improve efficiency through intensified job training programs at both the worker and supervisory levels.

We are pleased to report that Mr. Urban T. Kuechle and Mr. Roland Merrell joined the company's Board of Directors in 1968. Mr. Kuechle was elected by the stockholders in January, replacing Mr. Perry E. Hall, who retired. He is President and a Director of A. O. Smith Corporation, a large diversified manufacturer of industrial and commercial products. Mr. Merrell was elected by the Board in May to fill the unexpired term of Senator Charles H. Percy, who resigned. He has had a successful career in investment and commercial banking and is presently a Vice President and Director of the First National Bank of Stuart, Florida.

Also in 1968, Mr. Charles D. Strang, formerly Director of Marine Engineering for the company, was elected Group Vice President-Marine Products. In this new position, Mr. Strang has assumed responsibility for coordinating and directing the marine product development, manufacture and marketing activities of the company's domestic divisions and subsidiaries. Mr. Silas L. Metcalf, who was Mr. Strang's immediate assistant, has succeeded him as Director of Marine Engineering.

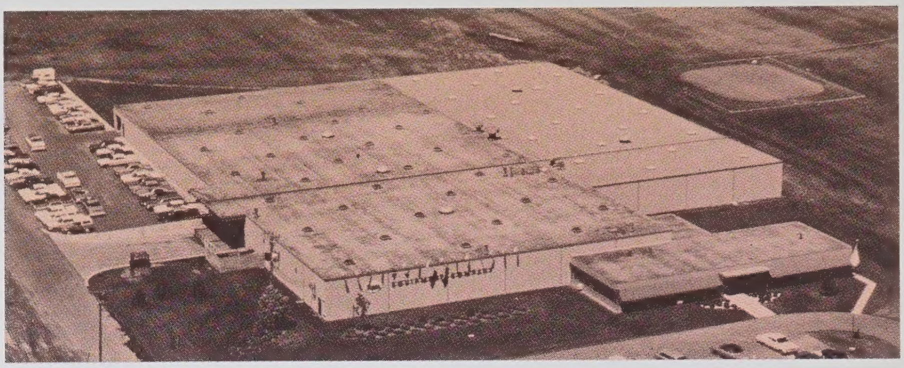
For the Board of Directors

Ralph S. Evinrude

Chairman of the Board

President

December 13, 1968

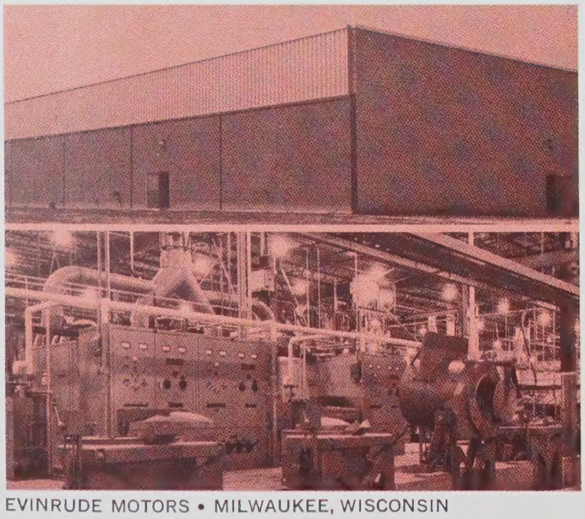


RYAN EQUIPMENT CO. • ST. PAUL, MINNESOTA

GALE PRODUCTS • GALESBURG, ILLINOIS

TRADE WINDS COMPANY, INC. • MANAWA, WISCONSIN

OMC • PETERBOROUGH, CANADA



EVINRUDE MOTORS • MILWAUKEE, WISCONSIN

JOHNSON MOTORS • WAUKEGAN, ILLINOIS

NOTES AND COMMENTS

Operations

Manufacturing:

As the following table shows, manufacturing operations of the company are carried on at ten plants, located in the United States and three foreign countries:

Plant	End Products	Manufacturing Floor Space (At September 30, 1968)	Number of Employees (At September 30, 1968)
Cushman Motors Division Lincoln, Nebr.	Golf carts Industrial vehicles	268,000	700
Evinrude Motors Division Milwaukee, Wis.	Outboard motors Snow vehicles	700,000	1,800
Gale Products Division Galesburg, Ill.	Lawn mowers Marine parts and accessories	672,000	2,100
Johnson Motors Division Waukegan, Ill.	Outboard motors Stern drive units	901,000	3,800
OMC Boats Division Waukegan, Ill.	Boats	378,000	600
Ryan Equipment Co. St. Paul, Minn.	Turf care equipment	60,000	100
Trade Winds Company, Inc. Manawa, Wis.	Camping trailers Snow vehicles	75,000	200
Outboard of Canada Peterborough, Canada	Outboard motors Snow vehicles Chain saws Lawn mowers	459,000	1,600
Outboard of Belgium Bruges, Belgium	Outboard motors Snow vehicles Lawn mowers Stern drive units	301,000	1,000
Outboard of Australia Bankstown, N.S.W. Australia	Outboard motors Chain saws	59,000	300

In addition to the end product responsibilities noted above, the Evinrude, Gale and Johnson Divisions serve as principal suppliers of component parts to each other and, to a somewhat lesser extent, most of the other company plants. Evinrude specializes in the fabrication of steel and bronze shafting, Gale makes ignition and electrical systems, carburetors and gasoline tanks, and Johnson produces aluminum die castings, gears and screw machine parts. Outboard of Canada produces tracks and frames for the Evinrude and Johnson brands of snow vehicles.

Product Line Review:

Sales volumes of all major product lines except chain saws were up in 1968 over 1967. Marine products, which include outboard motors, stern drive units, boats and marine parts and accessories, increased 19% over 1967.

The acquisition of Ryan Equipment Co. has been treated as a pooling of interest and Ryan sales in 1967 and 1968 have been included in the accompanying 10-year summary under a revised caption "Power mowers, turf equipment and parts." For the twelve months ended September 30, 1968, Ryan sales totaled $3,614,829.

Significant improvements in sales and earnings in the boat and lawn mower product lines were achieved in 1968. Boat operations were profitable, as were each of the remaining major product lines except snow vehicles and chain saws. Snow vehicle sales did not come up to expectations due to an unusually mild winter in the central snow areas of the U.S. and Canada which inhibited retail sales and to delays in preseason production of 1969 model vehicles. The reduction in projected sales together with unusual manufacturing and product improvement costs on 1968 models were sufficient to cause a loss from operations on this product line. Our principal market for chain saws is the Canadian pulp cutting industry which in 1968 was working off an excess pulp log inventory. Scandinavian markets were adversely affected by devaluation early in the year. The reduction in sales volume was the principal factor causing a loss from operations on this product line.

Operations Abroad:

All of our foreign subsidiaries except Pioneer Saws Ltd. recorded improved sales and earnings in 1968. Overseas sales totaled $47,539,802 as compared to $40,907,608 in 1967. Outboard Belgium achieved a sales increase of 24% despite devaluation of currencies in some of its markets early in the year. This reflects principally a strong economy and a continuation of the growing demand for outboard motors in most of the European Economic Community. In 1968, that subsidiary completed its tenth year of operations. During that period its plant space has been increased from 70,000 square feet devoted to assembling small outboard motors to 301,000 square feet producing a full line of outboards plus lawn mowers, snow vehicles and stern drive units. The company employed approximately 150 persons in its first year. At September 30, 1968, employment totaled 1,000 persons. From its first full year of operation through 1968, value of output has increased approximately 800%.

Employees:

The average number of persons employed by the company and its subsidiaries in 1968 was 12,283, an increase of 1,683 over 1967. Total employment

reached a new all-time high of 13,006 at year end. Labor shortages, particularly in the skilled classifications, continued to restrict the prompt filling of open requisitions for new employees. Special training programs initiated or accelerated during the year will help improve the labor supply available to meet future production needs. The relatively lower productivity of new employees and the resultant extensive overtime were reflected in production costs. Total compensation, including added benefits paid to or for all employees, averaged $8,206 per employee compared to $7,559 in 1967. The employment of members of minority groups at all domestic locations continued to increase during the year.

Increasing attention is being given to programs designed to assure the continuity of effective management talent. The training and development of employees demonstrating managerial potential will provide replacements for anticipated future retirements and reserves to fill expanding needs for capable executives.

Relationships with unions representing factory and office clerical employees in the United States and Canada have been satisfactory during the year. Six collective bargaining agreements having two- or three-year terms were negotiated without interruption of production. The wage and added benefits adjustments granted were conditioned by and appropriately within local and national union settlement patterns. During 1969 six union agreements will expire and be up for negotiation.

Effective September 1, 1968, subject to ratification by the stockholders at their annual meeting on January 16, 1969, the pension program for the company and certain of its subsidiaries was amended principally to increase the benefits thereunder. The estimated aggregate annual payment to be made, on a 30-year funding of past service with an interest assumption of 4½% per annum, is approximately $3,545,000. Before the current amendments the program was being funded on the basis of a 4% interest assumption. The total cost in fiscal 1967, being the last year before the current amendments, was $3,065,000. The total annual amount which would have been necessary to fund the program on a 4% interest assumption, after giving effect to the current amendments, for the year beginning September 1, 1968, would have been approximately $4,365,000. The company has been advised by its actuarial counsel that the revised interest assumption of 4½% per annum is more in line with anticipated rates and currently prevailing actuarial practice than the former assumption of 4% per annum.

At September 1, 1968, approximately 10,300 employees were covered by the various pension programs of the company and its subsidiaries. Of this number 5,113 were classified as active participants with vested benefits. This classification in the noncontributory program of the company and certain of its subsidiaries is attained after ten years of continuous service. Two years of service are required to participate in the Canadian companies' contributory plans. The cost of all pension programs in 1968 totaled $3,877,152 (including the cost of current amendments to the company's plan), compared to $3,350,731 in 1967.

Financial Notes:

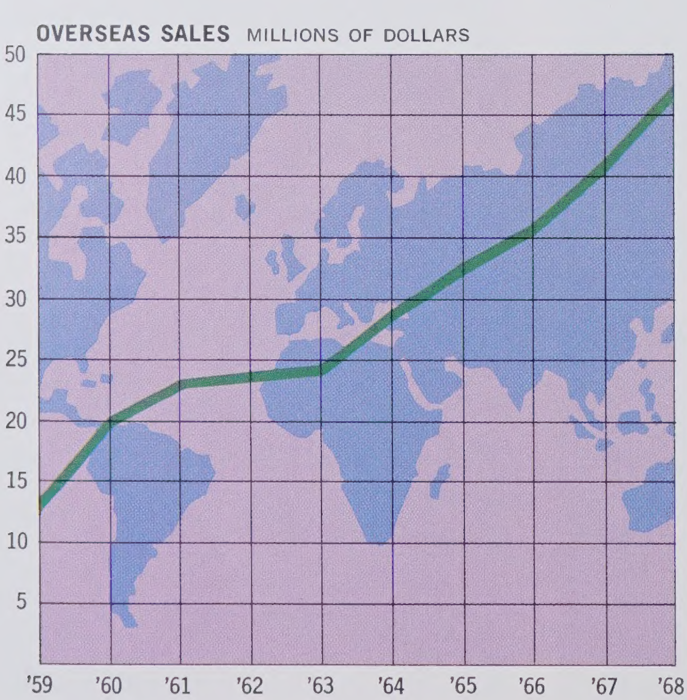
The investment credit against Federal income taxes resulting from 1968 capital additions amounted to approximately $712,000 and has been reflected in earnings for the year. The comparable credit in 1967 was $238,000.

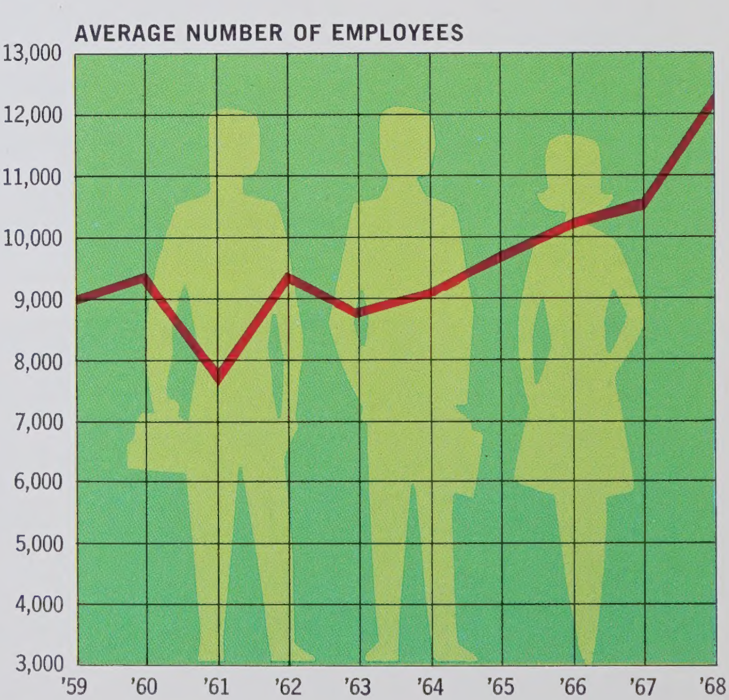
The amount of repatriation of 1968 earnings of our foreign subsidiaries subject to the Foreign Direct Investment Regulations totaled $4,700,000 as compared with $2,600,000 paid out of 1967 earnings. A substantial portion of the increase in consolidated cash balances at September 30, 1968 over the same date last year was in subsidiary company balances subsequently paid up to the parent company as dividends.

At September 30, 1968, consolidated working capital was $89,700,000 compared with $78,300,000 a year ago. Inventories of raw materials, work in process, finished products and service parts totaled $78,900,000, an increase of $13,500,000 over September 30, 1967. Higher costs accounted for a portion of the increase; however, it reflected principally the expanded level of manufacturing activity over the prior year. During 1968 the ratio of average inventory levels (beginning and ending) to sales was reduced slightly to 25.7% from 26.0% in 1967.

Expenditures for tools required to produce the company's 1969 lines is reflected as an addition to deferred charges in the Statement of Consolidated Financial Position at September 30, 1968 and will be charged off to earnings over the estimated useful life of the various tools. Such expenditures totaled $6,400,000, which was $1,800,000 more than the amortization of prior years' charges.

Funds held by the Trustees of the company's pension program are more than sufficient to meet all vested benefits earned to date. For this reason the company elected in 1968 to contribute to the fund an amount equal to current benefits earned in the year, but excluding the amortization of and assumed interest on past service benefits. The difference between the amount so contributed and the total which was charged against income in 1968 is reflected as a provision for retirement benefits in the Statement of Consolidated Financial Position.





OUTBOARD MARINE CORPORATION and Subsidiaries

STATEMENT OF CONSOLIDATED EARNINGS

For the years ended September 30, 1968 and 1967

	1968	1967 (Note 1)	Per Cent to Net Sales 1968	Per Cent to Net Sales 1967 (Note 1)
NET SALES	$280,182,143	$236,494,020	100.0	100.0
COSTS AND EXPENSES, including depreciation of $4,747,291 in 1968 and $4,448,023 in 1967 computed principally on the straight-line method:				
Cost of goods sold	184,904,819	151,702,204	66.0	64.1
Product research and development	12,024,918	10,175,648	4.3	4.3
Shipping	5,618,435	4,854,556	2.0	2.1
Selling and advertising	26,643,773	24,227,448	9.5	10.2
General and administrative	17,692,115	15,258,249	6.3	6.5
Interest and other expenses, net of other income	3,144,292	1,917,291	1.1	.8
Total	250,028,352	208,135,396	89.2	88.0
Earnings before provision for income taxes	30,153,791	28,358,624	10.8	12.0
PROVISION FOR INCOME TAXES:				
Current (net of investment credit realized)	14,119,897	12,491,063	5.0	5.3
Deferred	372,000	493,000	.2	.2
	14,491,897	12,984,063	5.2	5.5
Net earnings for the year	$ 15,661,894	$ 15,374,561	5.6	6.5
Net earnings per share of common stock	$1.95	$1.92		

The accompanying notes to consolidated financial statements are an integral part of this statement.

OUTBOARD MARINE CORPORATION and Subsidiaries

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

September 30, 1968 and 1967

	1968	1967 (Note 1)
CURRENT ASSETS:		
Cash	$ 16,470,064	$ 11,260,846
U. S. Government and other marketable obligations, at cost, including accrued interest	900,696	929,285
Receivables, less reserve, $236,000 in 1968 and $190,000 in 1967	35,555,008	31,933,295
Inventories, priced at lower of cost (first-in, first-out) or market—		
Finished product	11,133,195	10,598,119
Work in process, production parts, service parts and raw materials	67,764,211	54,753,940
Total current assets	131,823,174	109,475,485
CURRENT LIABILITIES:		
Notes payable	14,148,148	6,120,000
Accounts payable	15,399,604	13,530,664
Accrued liabilities	7,061,097	6,003,922
Provision for Federal, state and foreign income taxes	4,464,251	4,372,357
Current maturities and sinking fund requirements of long-term debt	1,035,276	1,126,748
Total current liabilities	42,108,376	31,153,691
Net current assets (working capital)	89,714,798	78,321,794
DEFERRED CHARGES, ETC.:		
Tooling	9,193,203	7,358,795
Prepaid expense and other assets	2,683,745	3,376,004
	11,876,948	10,734,799
PLANT AND EQUIPMENT, at cost:		
Land and land improvements	4,593,523	3,954,527
Buildings and fixtures	45,145,493	39,795,327
Machinery and equipment	61,067,674	51,979,603
Construction in progress	3,855,713	3,643,959
Total	114,662,403	99,373,416
Less—Accumulated depreciation	56,036,461	52,518,863
Plant and equipment, net	58,625,942	46,854,553
	160,217,688	135,911,146
DEDUCT:		
Long-term debt, net of current maturities and sinking fund requirements included above (Note 2)	28,664,254	12,669,835
Provision for retirement benefits and deferred incentive compensation	1,570,651	660,063
Provision for deferred income taxes	4,580,572	3,978,000
	34,815,477	17,307,898
Net assets provided by stockholders' investment	$125,402,211	$118,603,248
STOCKHOLDERS' INVESTMENT:		
Common stock (Notes 1 and 3)—		
Authorized 13,500,000 shares of $.30 par value		
Issued 8,038,962 shares in 1968 and 8,018,112 in 1967	$ 2,411,689	$ 2,405,433
Capital in excess of par value of common stock, per accompanying statement (Note 3)	30,762,192	30,451,081
Accumulated earnings employed in the business, per accompanying statement (Notes 1 and 2)	92,228,330	85,746,734
	$125,402,211	$118,603,248

The accompanying notes to consolidated financial statements are an integral part of this statement.

OUTBOARD MARINE CORPORATION and Subsidiaries

STATEMENTS OF CONSOLIDATED ACCUMULATED EARNINGS EMPLOYED IN THE BUSINESS AND CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK

For the years ended September 30, 1968 and 1967

Consolidated Accumulated Earnings Employed in the Business

	1968	1967 (Note 1)
Balance at beginning of year	$ 85,746,734	$76,741,236
Add—Net earnings for the year, per accompanying statement	15,661,894	15,374,561
	101,408,628	92,115,797
Deduct:		
Cash dividends paid, $1.00 per share in 1968, and $.80 per share in 1967	7,981,352	6,369,063
Ryan Equipment Co. treasury stock retired prior to acquisition	1,198,946	—
Balance at end of year (Note 2)	$ 92,228,330	$85,746,734

Capital in Excess of Par Value of Common Stock

	1968	1967
Balance at beginning of year	$ 30,451,081	$30,161,422
Add—Excess of proceeds over par value of common stock issued (Note 3)	311,111	289,659
Balance at end of year	$ 30,762,192	$30,451,081

The accompanying notes to consolidated financial statements are an integral part of these statements.

To the Stockholders,
OUTBOARD MARINE CORPORATION:

We have examined the statement of consolidated financial position of OUTBOARD MARINE CORPORATION (a Delaware corporation) AND SUBSIDIARIES as of September 30, 1968, and the related statements of consolidated earnings, consolidated accumulated earnings employed in the business, capital in excess of par value of common stock and consolidated source and application of funds (located elsewhere in this report) for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the year ended September 30, 1967.

In our opinion, the accompanying consolidated statements referred to above present fairly the financial position of the companies as of September 30, 1968, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Milwaukee, Wisconsin,
October 25, 1968.

ARTHUR ANDERSEN & CO.

TEN YEAR SUMMARY

	1968	1967
For Year Ended September 30:		
Net sales		
Marine products and parts	$195,133	$164,124
Power mowers, turf equipment and parts	32,311	25,450
Vehicles and parts	17,498	15,136
Chain saws and parts	8,566	9,743
Snow vehicles	19,053	17,130
Miscellaneous products	7,621	4,911
Total	280,182	236,494
Earnings before income taxes	30,154	28,359
% of sales	10.8%	12.0%
Net earnings	15,662	15,375
% of sales	5.6%	6.5%
Cash dividends paid on		
Common stock	7,981	6,369
Preferred stock of subsidiary	—	—
Earnings reinvested	7,681	9,006
% of net earnings	49.0%	58.6%
At September 30:		
Working capital	89,715	78,322
Plant and equipment (gross)	114,662	99,373
Total assets	202,326	167,065
Long-term debt	28,664	12,670
Common stockholders' equity	125,402	118,603
Issued shares of common stock $0.30 par value or equivalent	8,038,962	8,018,112
Approximate number of stockholders	24,000	26,000
Per Share on Common Stock:		
Net earnings (based on average number of shares)	1.95	1.92
Cash dividends paid	1.00	.80
Book value at September 30	15.60	14.79

In the above summary, 1968 and 1967 data has been restated to include Ryan Equipment (see Note 1 to financial statements). Prior years are not restated because the amounts are not material.

*After giving effect to payment of cash dividend on preferred stock of subsidiary.

1966	1965	1964	1963	1962	1961	1960	1959
		(in thousands of dollars)					
$156,024	$135,034	$129,655	$112,977	$116,822	$104,284	$141,194	$139,316
18,984	16,192	16,386	14,249	12,088	9,516	10,259	10,786
15,047	14,089	13,187	13,794	13,780	10,198	11,094	12,498
9,104	9,415	8,901	9,541	8,826	7,851	8,389	7,130
10,472	5,096	—	—	—	—	—	—
2,862	886	1,882	2,495	345	486	456	1,839
212,493	180,712	170,011	153,056	151,861	132,335	171,392	171,569
28,654	19,772	14,379	10,542	10,757	5,786	22,832	28,111
13.5%	10.9%	8.5%	6.9%	7.1%	4.4%	13.3%	16.4%
15,666	10,642	8,053	6,505	7,036	4,774	12,568	13,785
7.4%	5.9%	4.7%	4.3%	4.6%	3.6%	7.3%	8.0%
6,351	5,128	3,547	4,727	6,303	6,301	6,295	6,272
—	—	—	232	232	243	255	—
9,315	5,514	4,506	1,546	501	(1,770)	6,018	7,513
59.5%	51.8%	55.9%	23.8%	7.1%	(37.1%)	47.9%	54.5%
80,359	70,105	63,833	61,120	58,387	59,920	65,162	55,391
88,574	85,227	82,982	82,380	79,254	73,920	68,573	62,804
152,705	138,123	133,412	128,435	129,278	124,324	132,676	128,298
13,463	14,537	15,673	16,639	17,605	18,083	18,399	18,490
108,440	98,267	92,701	88,087	86,541	86,023	87,748	81,453
7,954,217	7,891,467	7,887,567	7,879,367	7,879,267	7,877,967	7,874,567	7,854,337
22,000	22,000	20,000	22,000	22,000	20,000	16,000	14,000
1.97	1.35	1.02	.80*	.86*	.58*	1.56*	1.76
.80	.65	.45	.60	.80	.80	.80	.80
13.63	12.45	11.75	11.18	10.98	10.92	11.14	10.37

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1968

(1) Acquisition—

During 1968 the company acquired all the outstanding stock of Ryan Equipment Co. in exchange for 48,571 shares of Outboard Marine Corporation common stock. This transaction has been accounted for as a pooling of interests; accordingly the accompanying consolidated financial statements have been restated to include the accounts and operating results of the acquired company since October 1, 1966. At that date, the excess of the stockholders' equity in Ryan Equipment Co. over the par value of the Outboard Marine Corporation common stock issued therefor amounted to $848,923 and has been added to accumulated earnings employed in the business.

(2) Long-Term Debt—

Long-term debt, net of current maturities and sinking fund requirements included in current liabilities at September 30, 1968 and 1967, are:

	1968	1967
Revolving credit notes with variable interest rate (currently 6½%), convertible January 1, 1971, to term notes due in varying semiannual installments to December 31, 1974	$17,000,000	$ —
5% notes due in 1982 with fixed sinking fund payments of varying annual amounts	7,950,000	8,300,000
4¼% note due in 1976 with semiannual sinking fund requirements of $250,000	3,250,000	3,750,000
Other mortgages and notes	464,254	619,835
	$28,664,254	$12,669,835

Under a revolving credit agreement, the company can borrow $35,000,000 with a commitment fee of ¼% on any unborrowed balance. At September 30, 1968, $30,500,000 was outstanding of which $13,500,000 has been classified as current notes payable. This agreement provides, among other things, that defined net working capital of $50,000,000 and a working capital ratio of two-to-one shall be maintained.

The loan agreements covering the 5% and 4¼% notes contain, among other things, restrictions on the payment of cash dividends, capital distributions and purchase, redemption or retirement of shares of common stock. Under the terms of these agreements, $45,154,942 of the consolidated accumulated earnings employed in the business was restricted as of September 30, 1968.

(3) Executive Stock Option Plans—

Under provisions of the 1967 Executive Stock Option Plan, 300,000 shares of common stock are reserved for options to officers and executive employees at not less than 100% of the fair market value at date of grant, exercisable not later than five years after date of grant. As of September 30, 1968, options for 141,600 shares have been granted under this plan and are exercisable through 1973.

Under provisions of the 1956 Executive Stock Option Plan, 39,000 shares of common stock are reserved at September 30, 1968, for options granted to officers and executive employees. These options are exercisable at varying dates through 1972. During the year, options for 20,850 shares were exercised under this plan for an aggregate price of $317,367, and options for 500 shares were terminated by lapse.

(4) Pension Program—

The company and its subsidiaries have trusteed and insured pension programs for substantially all employees. Total pension program costs were $3,877,152 for the year, including prior service costs and interest thereon which are being charged to expense in approximately equal amounts over a 30-year period. It is the company's intention to fund the past service costs during this period. During the year, pension benefits under the program of the company and certain of its subsidiaries were increased by amendments to the plans, which are subject to ratification by the stockholders at their annual meeting to be held in January, 1969. Changes in actuarial assumptions responsive to higher earnings of the pension program funds approximately offset the annual costs of the additional benefits. Total pension program funds exceed the actuarially computed value of vested benefits under the plans.

An analysis of the year 1968 would surely restate in emphatic terms—if any restatement were needed—the increasing demand for outdoor recreational facilities, both on state and national levels—and, of course, for boats, outboard motors, snowmobiles and other recreational products that help more and more people enjoy the out-of-doors. This is a facet of modern life that presents both a continuing challenge and opportunity to the company, to broaden and improve the product lines presently offered to meet the demand, and to anticipate future developments in this fast-moving, fast-changing field.

The 1969 lines of Evinrude and Johnson outboard motors reflect the scope of the challenge and the opportunity, for they encompass the broadest power range ever offered by the corporation in the outboard field—eleven power classes ranging from a 1½ horsepower single cylinder motor to the 115 horsepower Evinrude Starflite 115-S and the Johnson Sea-Horse V-115 four-cylinder V-block engines of unparalleled compactness and sophistication.

Four of the eleven motors in the 1969 Evinrude line are entirely new, and collectively represent an engineering achievement in increasing power while simultaneously making motors smaller and lighter in weight. The new Starflite 115-S, for example, is not only substantially more compact than competitive motors of comparable horsepower, but is actually lower, leaner and lighter than

the 100 horsepower Starflite of last year, while delivering 15 additional horsepower. The new Starflite 85 shares its engineering and styling advances.

Another new and most versatile addition to the 1969 Evinrude outboard line is the 25 horsepower Sportster twin. A glance backward at the high-horsepower outboards of a decade or so ago reinforces the belief that the Sportster may well be the lightest 25 ever built, for it weighs only 81 pounds, or little more than three pounds per horsepower, and is small enough to be easily stowed in a car trunk. Yet it is capable of speeds of thirty miles per hour, or more, on a fourteen-foot runabout.

The fourth all-new Evinrude outboard is the four horsepower Lightwin or Yachtwin—the latter with a high-thrust instead of a weedless lower unit. Compared with last year's three horsepower twin, this new motor offers a 33% increase in power at no increase of size or weight. Its new sound-absorbing mounting system isolates noise and vibration more effectively than ever. The Lightwin, available as a folding model, stows in its own luggage-type carrying case.

Retained in the line, with refinements, are several models that have proved popular with water sportsmen. They include the 55 horsepower Triumph, which made history in 1968 as the first multicylinder outboard to use the loop-charging principle; the 40 horsepower Lark and Big Twin; 33 horsepower Ski Twin in electric starting and manual starting models; 18 horsepower Fastwin; Sportwin 9½ horsepower fishing motor; the 6 horsepower Fisherman and the 1½ horsepower Mate.

New to the Johnson line, besides the 115 horsepower Sea-Horse V-115—which incorporates the surest, most advanced powered-shifting mechanism in boating, the new Hydro-Electric Drive—is the Sea-Horse 85. It shares virtually everything but horsepower rating with the V-115, including high performance tuned exhaust, patented Water-Shield silencing, prop-hub exhaust and other engineering features for superior performance and fuel economy.

Entirely new for 1969 is the Sea-Horse 25, whose unusual combination of speed and light weight is accounted for by ideally timed combustion with newly designed ports, new balanced counterweighted crankshaft and tuned timing. A computer-designed propeller not only makes the most of all the power this new engine develops, but provides a bonus in significantly improved "weedless" running characteristics.

The other all-new Johnson motor for 1969 is the Sea-Horse 4, delivering one full horsepower more than last year's Sea-Horse 3, at no increase in weight or dimensions. A completely new three-bladed propeller for this model combines weedless operation with remarkable open-water thrust. The Sea-Horse 4 is offered in three models, including a folding version.

Other models in the Johnson line range from the economical 1½ horsepower Sea-Horse single cylinder through 6, 9½, 20, 33, 40 and 55 horsepower models, the latter the three-cylinder Sea-Horse 55 which proved attractive to boatmen in 1968. A feature of all the company's outboards for 1969 is improved combustion that makes the most of every drop of our economical 50 to 1 gas/oil mix.

OMC Stern Drives will again offer four stern drive units for 1969, ranging from the 80 horsepower and 120 horsepower four-cylinder-in-line models to the 155 horsepower V-6, and 210 horsepower V-8. OMC Stern Drives feature a unique system of vibration absorbers, together with a through-the-transom mounting system that results in lower vibration and noise levels than competitive stern drives. And the OMC Stern Drive line remains the only one in the industry to offer a full two-year warranty on materials and workmanship.

Carrying forward a revolution in pleasure boat design, styling and construction that began in 1962, Evinrude and Johnson will each market four boat models in 1969. Johnson Boats will offer the 19-foot open-deck Surfer with 210 horsepower stern drive with several refinements over the 1968 model. Entirely new to the line, however, is the Johnson 191, another 19-footer with two bucket seats and 120 horsepower engine. The 191 is designed to be customized by the buyer to his particular kind of fishing, especially in big water, by the addition of fighting chairs, bait wells, coolers, and so on. Refined hull design for softer, smoother, dryer riding characteristics enhance the Johnson 16-foot boats—the opendeck Seasport with choice of 155 or 120 horsepower engines, and the Reveler runabout with 120 horsepower. Both are six passenger models combining versatility for a wide range of pleasure boat activities with complete equipment for passenger comfort and safety.

Two versions of the Evinrude Sportsman 16-footer will be available, with 155 or 120 horsepower stern drive options and choice of bucket seats with full-width rear seat, or of two back-to-back folding lounge seats. There will also be two versions of the 19-foot Rogue—a Rogue II with 210 horsepower engine, back-to-back lounge seats and optional rear bench seat; and the Rogue Sport Fisherman, with only two bucket seats, the remainder of the deck area being fully open for fishing gear or deck chairs. The Rogue Sport Fisherman is powered by the performance-proved 120 horsepower stern drive. Matching trailers and accessory items are offered for both Evinrude and Johnson boats.

Few innovations have had such an impact on the recreational life of our "snow-states" as the snowmobile. John-

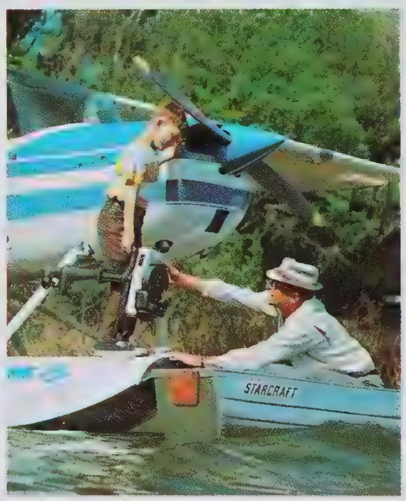
son and Evinrude marked their fifth season in this field by adding to their Skee-Horse and Skeeter snowmobile lines two complementary lines for 1969—the Evinrude Bobcat, in 19 and 23 horsepower models; and the Johnson Challenger, in 12, 17, 19 and 23 horsepower models. Both lines offer accessories such as sleigh attachments for use with Skeeter and Skee-Horse snowmobiles.

Design refinements improve the performance of the Aquanaut and Air-Buoy, the surface air supply units for skindivers, which will again be a part of the Evinrude and Johnson product lines, respectively, in 1969. Improvements added include newly designed face masks and a more comfortable harness with quick-disconnect buckles and hoses.

Four camper models comprise the 1969 Trade Winds line, topped by the Catalina, a "hardtop" fiberglass-roofed model whose top and side wings extend simultaneously by means of a crank to create sleeping accommodations for up to six persons. Another hardtop model, the Continental, will be available to sleep four or six persons; and the remainder of the line is taken up by two "soft-top" models of six and four person capacity, respectively, the Caprice and Tahiti. The Trade Winds line represents an unusual amalgam of portability, compactness, luxury and comfort, plus attractive interior styling with simulated walnut paneling, black trim and beige vinyl floors. The campers may be equipped to individual taste by adding galley units, heaters, add-a-rooms, boat racks, etc.

Two completely new riding models join the 1969 Lawn-Boy mower line. One is a 30-inch mower with keyed electric starter and generator, a seven horsepower motor, and for stability, the widest track in the industry. The other is a new 26-inch, five horsepower model with three forward speeds and reverse. Lawn-Boy models ranging from 18-inch to 30-inch mowers are designed for all home applications and continue to provide the only engines designed exclusively for power mowing, with such features as extra large mufflers, fingertip height adjustments, light weight, and electric starters that can fire up to 400 times without recharging.

Two models of the all new, quiet electric mowers were introduced at this year's National Hardware Show in New York and were received with enthusiasm. These 19- and 21-inch electric mowers, powered by a direct drive electric motor, provide the advantage of few-



er moving parts than conventional electric mowers and is considerably quieter to operate. They both feature a mechanical braking action stopping the blade in seconds, no free wheeling, after user switches off the mower. A cord tender keeps the cord out of the operator's way.

The new Pioneer Chain Saw line for 1969 will provide chain saws for every home, farm and commercial use, reflecting an important new interest in chain saws on the part of vacation home owners. They will doubtless be attracted to the new Holiday line of three chain saws, which may be converted to a brush cutter, a multi-purpose cutter for metal, masonry or concrete, or to a portable power source for pumps, sprayers, winches and the like. New features offered on specific chain saw models are a "Duratorque" powerhead capable of delivering up to 20% faster cutting together with more usable horsepower, and the "Inject-Aire" positive idling system that virtually eliminates stalling while improving fuel economy.

The Cushman Motors Division continues to lead the field of small three- and four-wheeled gasoline and electric-powered vehicles with its new Gran Cushman golf car, described as the "most dashing, most functional golf car" on the market. Styled in the sleek personal sports car mode, it has an all-steel body with wraparound bumpers, wall-to-wall carpeting on the rear deck, and individually adjustable front bucket seats. It is offered in both three- and four-wheel versions, powered by gasoline or electricity. A similar vehicle, the Town & Fairway, offers extended use as a passenger vehicle or carry-all, with a canopy top and convertible rear seat that folds down to create a roomy carpeted deck. It also boasts such luxury features as turn signals, a cigarette lighter, head and tail lights and stop lights. Cushman work vehicles continue to enjoy wide acceptance for commercial and industrial use, as well as by police and fire departments, schools, parks and institutions.

New to the Outboard Marine Corporation family in 1969 are the products of Ryan Equipment Co., St. Paul, Minnesota. Ryan manufactures the world's most complete line of turf and grass maintenance equipment for golf courses, school grounds, athletic fields, playgrounds, parks, cemeteries and industrial grounds. The company sells throughout North America, and also enjoys distribution in Europe, Australia and Japan for its specialized machines such as aerators, spikers, corers, slicers, vertical mowers (also known as power rakes), spreaders, rollers, sod cutters and rollers and grounds groomers. A new addition to the Ryan line for 1969 is the Sod Harvester, a unit which cuts sod strips to length and width and rolls them automatically, thereby effecting a substantial saving in time and labor costs for sod farmers.

R. S. EVINRUDE
Chairman of the Board and Chairman of the Executive Committee

J. L. RAYNIAK
Executive Vice President

W. C. SCOTT
President

R. F. WALLACE
Vice President

J. B. BRIGGS
Group Vice President

R. MERRELL
Vice President and Director, First National Bank of Stuart, Florida

W. C. SCOTT

U. T. KUECHLE
President, A. O. Smith Corporation,

DIRECTORS

F. T. IRGENS
Vice President

C. E. NELSON
President, Waukesha Motor Company

I. LEVIN
Legal Counsel, Partner in Butzel, Levin, Winston & Quint

R. S. EVINRUDE

outboard marine corporation annual report 1969

Outboard Marine Corporation

ANNUAL REPORT 1969

CONTENTS

Highlights of the Year:

	1969	1968
Year Ended September 30:		
Net sales	$327,131,000	$280,182,000
Net earnings before income taxes	34,281,000	30,154,000
% to sales	10.5%	10.8%
Net earnings	17,078,000	15,662,000
Net earnings per share	$2.12	$1.95
Dividends per share paid on common stock	$1.00	$1.00
At September 30:		
Working capital	107,222,000	89,715,000
Long-term debt	45,724,000	28,664,000
Stockholders' equity-total	135,152,000	125,402,000
Stockholders' equity per share	$16.73	$15.60

Source and Application of Funds:

	1969	1968
Source:		
From operations—		
Net earnings	$ 17,078,000	$ 15,662,000
Depreciation	5,587,000	4,747,000
Amortization of tooling	6,484,000	4,595,000
Provision for deferred taxes	800,000	372,000
	29,949,000	25,376,000
Proceeds from sale of—		
Long-term debt	18,202,000	17,030,000
Plant and equipment (net)	347,000	146,000
Common stock (Executive Stock Option Plan)	732,000	317,000
Other—Principally changes in deferred items	413,000	1,809,000
	49,643,000	44,678,000
Application:		
Additions to plant and equipment	16,109,000	16,639,000
Tooling expenditures	6,825,000	6,430,000
Long-term debt maturing currently	1,142,000	1,035,000
Dividends	8,060,000	7,982,000
Retirement of Ryan Equipment Co. treasury stock	—	1,199,000
	32,136,000	33,285,000
Increase in working capital	$ 17,507,000	$ 11,393,000

Board of Directors

RALPH EVINRUDE, *Chairman of the Board and Chairman of the Executive Committee*
JAMES B. BRIGGS, *Vice President*
FINN T. IRGENS, *Vice President*
URBAN T. KUECHLE, *President, A. O. Smith Corporation*
ISADORE LEVIN, *Partner, Butzel, Levin, Winston & Quint*
ROLAND MERRELL, *Vice President and Director, First National Bank of Stuart, Florida*
CHARLES E. NELSON, *President, Waukesha Motor Company*
JOSEPH L. RAYNIAK, *Executive Vice President*
WILLIAM C. SCOTT, *President*
ROBERT F. WALLACE, *Vice President*

Officers

RALPH EVINRUDE, *Chairman of the Board and Chairman of the Executive Committee*
WILLIAM C. SCOTT, *President and General Manager*
JOSEPH L. RAYNIAK, *Executive Vice President*
HAROLD L. BOURDON, *Vice President—Manager, Gale Products Division*
JAMES B. BRIGGS, *Group Vice President—Non-Marine Products*
JOHN R. CLARKE, *Vice President—Industrial Relations*
W. CLAY CONOVER, *Vice President—Manager, Johnson Motors Division*
HARRIS O. EWALD, *Vice President—Manager, OMC Boats Division*
EUGENE W. KREAGER, *Vice President—Special Manufacturing Development*
HOWARD F. LARSON, *Vice President—Sales and Marketing, Marine Products*
CURTIS T. MORRIS, *Vice President—Manager, Cushman Motors Division*
ROBERT H. SCOTT, *Vice President—Manager, Evinrude Motors Division*
CHARLES D. STRANG, *Group Vice President—Marine Products*
ROBERT F. WALLACE, *Vice President—Finance*
EDGAR W. HOLLMANN, *Treasurer*
SHERWOOD L. RICHARDSON, *Controller*
JOHN R. SEEGER, *Secretary*
KEITH A. POPE, *Assistant Treasurer*
ROBERT K. GERLING, *Assistant Secretary*
EDWARD J. HEALY, *Assistant Secretary*
GRACE F. SCHNEIDER, *Assistant Secretary*

Divisions

Cushman Motors, CURTIS T. MORRIS, *Manager*
Evinrude Motors, ROBERT H. SCOTT, *Manager*
Gale Products, HAROLD L. BOURDON, *Manager*
Johnson Motors, W. CLAY CONOVER, *Manager*
OMC Boats, HARRIS O. EWALD, *Manager*

Subsidiary Companies

Outboard Marine Corporation of Canada Ltd., THOMAS P. McMILLAN, *President*
Pioneer Saws Ltd., THOMAS P. McMILLAN, *President*
Outboard Marine International S.A., FRED W. MILTON, *President*
Outboard Marine International, Inc., JAMES J. BUTLER, JR., *President*
Outboard Marine Belgium S.A., GERALD K. AHLERS, *Administrateur-Delegue (President)*
Outboard Marine Australia Pty. Limited, FRED W. MILTON, *General Manager*
Ryan Equipment Co., EARL W. NYSTROM, *President*
Trade Winds Company, Inc., ROBERT L. STEINMETZ, *General Manager*

TRANSFER AGENT First National City Bank of New York, N. Y.
REGISTRAR Bankers Trust Company, New York, N. Y.
STOCK EXCHANGE REGISTRATION New York Stock Exchange
PRINCIPAL EXECUTIVE OFFICE 100 Pershing Road, Waukegan, Illinois

To Our Stockholders:

Sales and earnings reached record highs in the fiscal year ended September 30, 1969. Net sales totaled $327,131,000, an increase of $47,000,000, or 17% over 1968. Net earnings were $17,078,000, or $2.12 per share, compared to $15,662,000, or $1.95 per share last year. Cash dividends paid of $8,060,000 in 1969, and $7,982,000 in 1968, were equivalent to $1.00 per share in both years.

Sales of all of the company's products except boats and chain saws were higher than in 1968. Outboard motors and marine stern drive engines achieved the highest increases in dollar volume. Snow vehicle sales were very strong in the fourth quarter, particularly in comparison with the same period last year, reflecting improved availability and an encouraging reception of our 1970 line of vehicles.

Boat sales were disappointing, particularly in the latter part of the summer. This appears to have been related to a softening market for large consumer durable goods which became evident in the last quarter. Camper trailer sales were improved over 1968, but were not up to planned levels. This market was noticeably price competitive in 1969.

Substantial progress was made toward improving operating efficiency during the last three quarters of the year. In that nine-month period, earnings before taxes of $37,000,000 were equivalent to 13.4% of sales compared to $28,900,000, or 12.7% of sales in the comparable period of 1968. This improvement was accomplished despite startup costs in the company's new snow vehicle plant, and year end adjustments to inventories relating in part to a carryover of 1969 boats and some non-marine products, as well as to earlier period operational problems.

On November 14, 1969, the company announced that it would discontinue its boat business after the 1970 model year. The company has produced a limited line of premium quality stern drive engine powered boats since 1962. The unique design concepts which we pioneered have since been adopted by many producers in the fiber glass boat industry. This has helped pave the way for the growing demand for stern drive engine power, and we have been successful in increasing substantially our share of the market as a profitable supplier

of these power units to other boat builders. The results of our own boat operations, however, have been marginal at best, and the decline in sales made them unprofitable in 1969. Having determined that we cannot expect to achieve a reasonable rate of return even under optimum conditions, we have decided to employ the capital presently required for boat operations in the more profitable segments of our business. Scheduled requirements for our other products are such that additional manufacturing space will be required by mid-1970. The modern, 350,000 square foot boat plant is well suited to and will be utilized in such manufacturing operations. The eventual disposition of boat manufacturing equipment is not expected to give rise to any significant write-offs.

The operations of Pioneer Saws Ltd. were completely reorganized during the year. This subsidiary develops and markets the company's chain saws and has experienced sales declines resulting in unprofitable operations for the past two years. Mr. Thomas McMillan and Mr. Bruce Payne, respectively President and Executive Vice President of Outboard of Canada, have been elected to the same offices of Pioneer also. We believe that under the able leadership of these men, both of whom are experienced in the chain saw industry, Pioneer will become a much stronger factor in the market.

The principal sales office of Outboard Marine International S.A., formerly located in Nassau, Bahamas, has been moved to Hong Kong. Mr. Fred W. Milton, General Manager of Outboard of Australia, has been made President of this international sales company also. This move will materially strengthen our activities in Far Eastern markets which we regard as having excellent potential for rapid growth in the near future. The principal office of Outboard Marine International, Inc., our sales subsidiary for Latin America, has been moved from Nassau to Miami and continues under the management of its President, Mr. James J. Butler, Jr.

After 50 years of outstanding service to the company, Mr. Finn T. Irgens retired this year as Vice President of Engineering and Research. Recognized as the engineering dean of the outboard motor field, Mr. Irgens pioneered many of the major innovations and improvements in this product over the years. He also has made significant inventive contributions relating to lawn mowers and chain saws.

Mr. Irgens has consented to stand for re-election to the Board of Directors, in which position his wisdom and experience can continue to serve the company. He will be available as an engineering consultant also.

We have accepted with regret the decision of Mr. Isadore Levin to retire as a Director after distinguished service in that capacity for 28 years, and as legal counsel for 40 years.

Current economic forecasts indicate greater than usual uncertainty in projecting the consumer market for 1970. There are indications that the coming year may not achieve the growth rate of the past several; at the same time, inflationary cost pressures have not yet abated significantly. However, we believe that the recent steps we have taken to strengthen our operations, the results of which began to be apparent in 1969, will be particularly significant in 1970. In the broader perspective, the growing demand for consumer recreational goods presents a very promising long range opportunity upon which our plans are based.

For the Board of Directors

Ralph S. Evinrude

Chairman of the Board

President

December 12, 1969




Sport-craf

Notes and Comments

Product Line Review:

Outboard motor dollar sales volume was up 18% over 1968 and remained strong throughout the year. Although some models were in short supply, by and large our dealers were in a much improved position to make deliveries than they were in the prior year. At year end, field inventories were considered to be at normal levels.

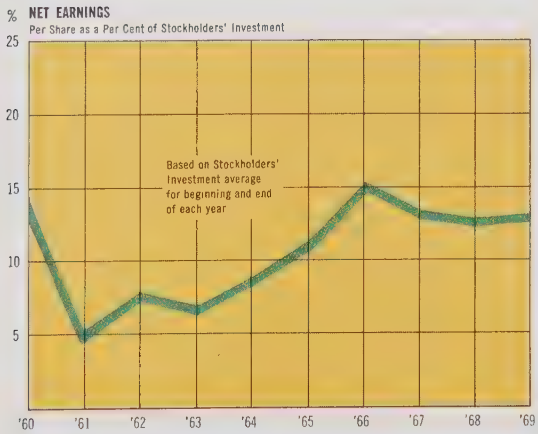
In 1969 we increased significantly our share of the growing market for marine stern drive engines, with the result that sales of this product were nearly double the 1968 total, and earnings margins were above the corporate average. We believe this market continues to promise significant growth over the next several years, and we are hopeful that our new product program will enable us to improve further our position in this market.

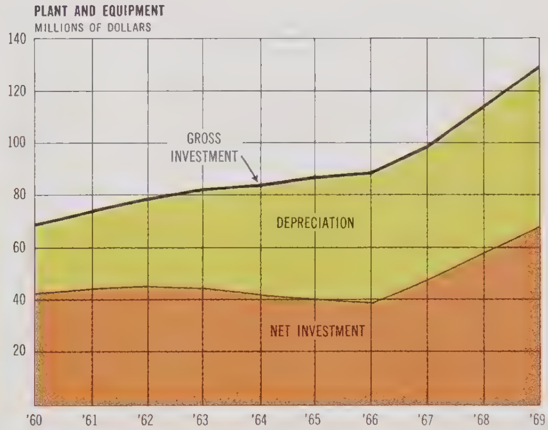
During 1969 we embarked on a long-range program designed to attain a more important share of the growing but highly competitive snow vehicle market. Product development activities were reorganized and greatly expanded. Vehicle testing in snow is now virtually on a year-round basis at several test sites. Production of vehicles has been consolidated from three separate locations into one new 160,000 square-foot plant at Outboard of Canada. This plant is capable of expanding significantly and efficiently our current rate of vehicle production. Dealer service training programs have been enlarged. We believe that our very high level of field service, which has been an important key to our success in the marine field, will also be a vital advantage in marketing snow vehicles. Extraordinary expenses related to these activities, together with the effect of late production of last winter's vehicles, resulted in a loss on the snow vehicle product line for 1969. It should be noted, however, that operations were profitable in the fourth quarter of the year, compared to a loss in the comparable period of 1968.

Very severe competitive pressures in the camping trailer industry in 1969 were such that we were unable to achieve either planned price or sales levels, with the result that our Trade Winds subsidiary operated at a loss. Substantial manufacturing cost savings have been incorporated into the 1970 line and operations streamlined to provide increased flexibility and lower operating costs. It is expected that operating results for this product line will be improved in 1970.

Operations Abroad:

Sales and earnings of our foreign operations were improved over 1968. Overseas sales totaled $53,400,000, as compared to $47,500,000 in 1968. Sales were up in all major marketing areas except Australia. The latter has one of the highest outboard motor densities per capita of any major market in the world, and further significant growth will depend largely upon population increase and the planned development of water resources. Having an efficient production facility located in Australia places us in a good position in what will be an increasingly competitive situation. It is planned to utilize this facility also to supply motors to the expanding adjacent Pacific and Far Eastern markets.









Employees:

The average number of persons employed by the company and its subsidiaries totaled 13,886 in 1969, an increase of 880, or 7% over 1968. The effect of acute labor shortages which hampered production over a two-year period was alleviated somewhat during 1969, due in large part to the intensive, continuing employee training programs undertaken in the prior year. Total compensation, including added benefits paid to or for all employees, averaged $8,572 per employee, compared to $8,206 in 1968, an increase of 4.5%.

Six collective bargaining agreements were negotiated during 1969, and one has been negotiated thus far in the current year. Two more agreements will expire this year and be up for negotiation, and two others are subject to wage re-opening. Relationships with the various unions representing the company's factory and clerical employees have continued to be satisfactory, with agreements being reached within local and national patterns and without interruption of production.

At September 1, 1969, approximately 14,300 employees were covered by the various pension programs of the company and its subsidiaries. Of this number, 5,136 were classified as active participants with vested benefits under the terms of the various plans. The cost of all pension programs in 1969 totaled $4,605,000, compared to $3,877,000 in 1968. Most of this increase resulted from an amendment to the company's program which became effective as of September 1, 1968 after ratification by the stockholders. This amendment increased the benefits under the program. The company has consistently followed the conservative practice of charging against current income the cost of expected pension benefits, including amortization of past service cost, for each covered employee.

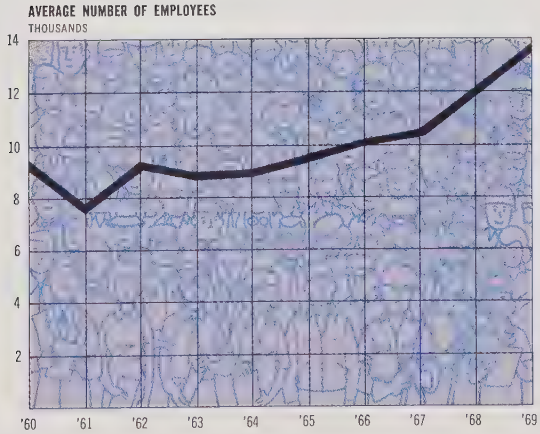
Financial Notes:

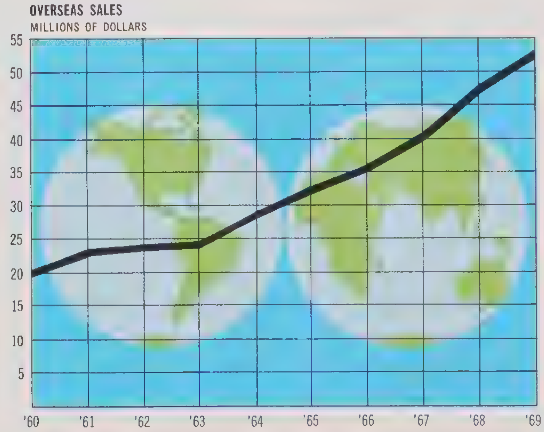
The investment credit against Federal income taxes in 1969 resulting from capital additions amounted to $1,030,000, and has been reflected in earnings for the year. The comparable credit in 1968 was $712,000. If, as expected, the investment credit law is repealed effective as to equipment ordered after April 18, 1969, the amount of credit which we realize in 1970 will be materially reduced from the 1969 total.

The reduction in net earnings for the year attributable to the Federal surtax was approximately $1,300,000.

Effective August 1, 1969, the State of Illinois enacted an income tax law with a rate of 4% applicable to Illinois income, as defined, of corporations doing business in that state where we have major operations. While it is not possible at this time to determine the precise effect such tax will have, it is estimated that it may raise the overall taxes of the company by almost 1% on total taxable income in 1970.

Consolidated inventories of raw materials, work in process, finished products and service parts, totaled $100,800,000 at September 30, 1969, an increase of $21,900,000 over the same date a year ago, most of which increase was in finished goods. In contrast to the





prior year, initial production of almost all products was on schedule at September 30, which will permit a more efficient output level for the balance of the model year.

During 1969 the company employed the balance of its $35,000,000 revolving credit to finance capital expenditures and provide additional working capital. Interest on all borrowings, including short-term loans, totaled $4,733,000 in 1969, compared to $2,194,000 in 1968. The increase reflected a higher average level of indebtedness together with higher rates.

New plant area added in 1969 included, in addition to the 160,000 square foot snow vehicle plant noted above, a 73,000 square foot aluminum die casting plant at the Gale Division, and approximately 90,000 square feet of manufacturing and storeroom area at Outboard of Belgium. At September 30, the company and its subsidiaries had approximately 4,100,000 square feet devoted to production activities.

Manufacturing:

As the following table shows, manufacturing operations of the company are carried on at ten plants, located in the United States and three foreign countries:

		At September 30, 1969	
Plant	End Products	Manufacturing Floor Space	Number of Employees
Cushman Motors Division Lincoln, Nebr.	Golf Carts Industrial vehicles	276,000	700
Evinrude Motors Division Milwaukee, Wis.	Outboard Motors	601,000	2,100
Gale Products Division Galesburg, Ill.	Lawn mowers Marine parts and accessories	745,000	2,000
Johnson Motors Division Waukegan, Ill.	Outboard motors Stern drive units	904,000	4,300
OMC Boats Division Waukegan, Ill.	Boats	384,000	500
Ryan Equipment Co. St. Paul, Minn.	Turf care equipment	60,000	200
Trade Winds Company, Inc. Manawa, Wis.	Camping trailers	75,000	100
Outboard of Canada Peterborough, Canada	Outboard motors Snow vehicles Chain saws Lawn mowers	583,000	2,100
Outboard of Belgium Bruges, Belgium	Outboard motors Lawn mowers Stern drive units	391,000	1,100
Outboard of Australia Bankstown, N.S.W. Australia	Outboard motors Chain saws	65,000	300

In addition to the end product responsibilities noted above, the Evinrude, Gale and Johnson Divisions serve as principal suppliers of component parts to each other and, to a somewhat lesser extent, most of the other company plants. Evinrude specializes in the fabrication of steel and bronze shafting. Gale makes ignition and electrical systems, carburetors and gasoline tanks. Gale and Johnson produce aluminum die castings; in addition, Johnson produces gears and screw machine parts. Outboard of Canada produces all of the company's snow vehicles.


LAWN-BOY


Ryan


Johnson

Financial Section

STATEMENT OF CONSOLIDATED EARNINGS

For the Years Ended September 30, 1969 and 1968

	1969	1968	Per Cent to Net Sales 1969	Per Cent to Net Sales 1968
NET SALES	$327,131,000	$280,182,000	100.0	100.0
COSTS AND EXPENSES, including depreciation of $5,587,000 in 1969 and $4,747,000 in 1968 computed principally on the straight-line method:				
Cost of goods sold	215,108,000	184,905,000	65.8	66.0
Product research and development	12,423,000	12,025,000	3.8	4.3
Shipping	7,416,000	5,618,000	2.3	2.0
Selling and advertising	30,163,000	26,644,000	9.2	9.5
General and administrative	21,472,000	17,692,000	6.5	6.3
Interest and other expenses, net of other income	6,268,000	3,144,000	1.9	1.1
Total	292,850,000	250,028,000	89.5	89.2
Earnings before provision for income taxes	34,281,000	30,154,000	10.5	10.8
PROVISION FOR INCOME TAXES:				
Current (net of investment credit realized)	16,403,000	14,120,000	5.0	5.0
Deferred	800,000	372,000	.3	.2
	17,203,000	14,492,000	5.3	5.2
Net earnings for the year	$ 17,078,000	$ 15,662,000	5.2	5.6
Net earnings per share of common stock, computed on the average shares outstanding	$2.12	$1.95		

The accompanying notes are an integral part of this statement.

OUTBOARD MARINE CORPORATION and Subsidiaries

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

September 30, 1969 and 1968

	1969	1968
CURRENT ASSETS:		
Cash	$ 19,090,000	$ 16,470,000
Marketable securities, at cost, plus accrued interest	447,000	901,000
Receivables, less reserve of $255,000 in 1969 and $236,000 in 1968	46,484,000	35,555,000
Inventories, priced at lower of cost (first-in, first-out) or market—		
Finished product	25,746,000	11,133,000
Work in process, production parts, service parts and raw materials	75,015,000	67,764,000
Total current assets	166,782,000	131,823,000
CURRENT LIABILITIES:		
Notes payable	23,429,000	14,148,000
Accounts payable	16,703,000	15,400,000
Accrued liabilities	11,236,000	7,061,000
Provision for Federal, state and foreign income taxes	7,050,000	4,464,000
Current maturities and sinking fund requirements of long-term debt	1,142,000	1,035,000
Total current liabilities	59,560,000	42,108,000
Net current assets (working capital)	107,222,000	89,715,000
DEFERRED CHARGES, ETC.:		
Tooling	9,534,000	9,193,000
Prepaid expenses and other assets	3,226,000	2,684,000
	12,760,000	11,877,000
PLANT AND EQUIPMENT, at cost:		
Land and land improvements	5,012,000	4,594,000
Buildings and fixtures	48,880,000	45,145,000
Machinery and equipment	72,808,000	61,067,000
Construction in progress	3,002,000	3,856,000
Total	129,702,000	114,662,000
Less—Accumulated depreciation	60,844,000	56,036,000
Plant and equipment, net	68,858,000	58,626,000
	188,840,000	160,218,000
DEDUCT:		
Long-term debt, net of current maturities and sinking fund requirements included above (Note 2)	45,724,000	28,664,000
Provision for retirement benefits and deferred incentive compensation	2,583,000	1,571,000
Provision for deferred income taxes	5,381,000	4,581,000
	53,688,000	34,816,000
Net assets provided by stockholders' investment	$135,152,000	$125,402,000
STOCKHOLDERS' INVESTMENT (Note 5):		
Common stock—		
Authorized 13,500,000 shares of $.30 par value		
Issued 8,080,462 shares in 1969 and 8,038,962 in 1968 (Note 3)	$ 2,424,000	$ 2,412,000
Capital in excess of par value of common stock, per accompanying statement	31,482,000	30,762,000
Accumulated earnings employed in the business, per accompanying statement (Note 2)	101,246,000	92,228,000
	$135,152,000	$125,402,000

The accompanying notes are an integral part of this statement.

OUTBOARD MARINE CORPORATION and Subsidiaries

TEN YEAR SUMMARY

	1969	1968
For Year Ended September 30:		
Net sales		
Marine products and parts	$235,011	$195,133
Power mowers, turf equipment and parts	33,966	32,311
Vehicles and parts	18,426	17,498
Chain saws and parts	8,489	8,566
Snow vehicles	22,954	19,053
Miscellaneous products	8,285	7,621
Total	327,131	280,182
Earnings before income taxes	34,281	30,154
% of sales	10.5%	10.8%
Net earnings	17,078	15,662
% of sales	5.2%	5.6%
Cash dividends paid on		
Common stock	8,060	7,981
Preferred stock of subsidiary	—	—
Earnings reinvested	9,018	7,681
% of net earnings	52.8%	49.0%
At September 30:		
Working capital	107,222	89,715
Plant and equipment (gross)	129,702	114,662
Total assets	248,400	202,326
Long-term debt	45,724	28,664
Common stockholders' equity	135,152	125,402
Issued shares of common stock $0.30 par value or equivalent	8,080,462	8,038,962
Approximate number of stockholders	21,000	24,000
Per Share on Common Stock:		
Net earnings (based on average number of shares)	2.12	1.95
Cash dividends paid	1.00	1.00
Book value at September 30	16.73	15.60

*After giving effect to payment of cash dividend on preferred stock of subsidiary.

1967	1966	1965	1964	1963	1962	1961	1960
		(in thousands of dollars)					
$164,124	$156,024	$135,034	$129,655	$112,977	$116,822	$104,284	$141,194
25,450	18,984	16,192	16,386	14,249	12,088	9,516	10,259
15,136	15,047	14,089	13,187	13,794	13,780	10,198	11,094
9,743	9,104	9,415	8,901	9,541	8,826	7,851	8,389
17,130	10,472	5,096	—	—	—	—	—
4,911	2,862	886	1,882	2,495	345	486	456
236,494	212,493	180,712	170,011	153,056	151,861	132,335	171,392
28,359	28,654	19,772	14,379	10,542	10,757	5,786	22,832
12.0%	13.5%	10.9%	8.5%	6.9%	7.1%	4.4%	13.3%
15,375	15,666	10,642	8,053	6,505	7,036	4,774	12,568
6.5%	7.4%	5.9%	4.7%	4.3%	4.6%	3.6%	7.3%
6,369	6,351	5,128	3,547	4,727	6,303	6,301	6,295
—	—	—	—	232	232	243	255
9,006	9,315	5,514	4,506	1,546	501	(1,770)	6,018
58.6%	59.5%	51.8%	55.9%	23.8%	7.1%	(37.1%)	47.9%
78,322	80,359	70,105	63,833	61,120	58,387	59,920	65,162
99,373	88,574	85,227	82,982	82,380	79,254	73,920	68,573
167,065	152,705	138,123	133,412	128,435	129,278	124,324	132,676
12,670	13,463	14,537	15,673	16,639	17,605	18,083	18,399
118,603	108,440	98,267	92,701	88,087	86,541	86,023	87,748
[illegible],018,112	7,954,217	7,891,467	7,887,567	7,879,367	7,879,267	7,877,967	7,874,567
26,000	22,000	22,000	20,000	22,000	22,000	20,000	16,000
1.92	1.97	1.35	1.02	.80*	.86*	.58*	1.56*
.80	.80	.65	.45	.60	.80	.80	.80
14.79	13.63	12.45	11.75	11.18	10.98	10.92	11.14

STATEMENTS OF CONSOLIDATED ACCUMULATED EARNINGS EMPLOYED IN THE BUSINESS AND CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK

For the Years Ended September 30, 1969 and 1968

CONSOLIDATED ACCUMULATED EARNINGS EMPLOYED IN THE BUSINESS

	1969	1968
Balance at beginning of year	$ 92,228,000	$ 85,747,000
Add—Net earnings for the year, per accompanying statement	17,078,000	15,662,000
	109,306,000	101,409,000
Deduct:		
Cash dividends paid of $1.00 per share in each year	8,060,000	7,982,000
Ryan Equipment Co. treasury stock retired prior to acquisition	—	1,199,000
Balance at end of year (Note 2)	$101,246,000	$ 92,228,000

CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK

	1969	1968
Balance at beginning of year	$ 30,762,000	$ 30,451,000
Add—Excess of proceeds over par value of common stock issued (Note 3)	720,000	311,000
Balance at end of year	$ 31,482,000	$ 30,762,000

The accompanying notes are an integral part of these statements.

To the Stockholders,
OUTBOARD MARINE CORPORATION:

We have examined the statement of consolidated financial position of OUTBOARD MARINE CORPORATION (a Delaware corporation) and subsidiaries as of September 30, 1969, and the related statements of consolidated earnings, consolidated accumulated earnings employed in the business, capital in excess of par value of common stock and consolidated source and application of funds (located elsewhere in this report) for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the year ended September 30, 1968.

In our opinion, the accompanying consolidated statements referred to above present fairly the financial position of the companies as of September 30, 1969, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Milwaukee, Wisconsin,
October 24, 1969.

ARTHUR ANDERSEN & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1969

(1) BASIS OF CONSOLIDATION—

The consolidated financial statements include all major domestic and foreign subsidiaries. Certain minor subsidiaries are carried on the equity basis in the accompanying consolidated statements.

The accounts of foreign subsidiaries have been converted to U. S. dollars at appropriate rates of exchange and intercompany accounts, transactions and earnings have been eliminated in consolidation.

(2) LONG-TERM DEBT—

Long-term debt, net of current maturities and sinking fund requirements included in current liabilities at September 30, 1969 and 1968, are:

	1969	1968
Revolving credit notes with variable interest rate (currently 8½%), convertible January 1, 1971, to term notes due in varying semiannual installments to December 31, 1974....	$35,000,000	$17,000,000
4¼% note due in 1976 with semiannual sinking fund requirements of $250,000........	2,750,000	3,250,000
5% notes due in 1982 with fixed sinking fund payments of varying annual amounts.....	7,600,000	7,950,000
Other mortgages and notes........	374,000	464,000
	$45,724,000	$28,664,000

Under the revolving credit agreement at September 30, 1969, the company has borrowed $35,000,000 which is the authorized amount. This agreement provides, among other things, for a commitment fee of ¼% on any unborrowed balance, and that defined net working capital of $50,000,000 and a working capital ratio of two-to-one shall be maintained.

The loan agreements covering the 5% and 4¼% notes contain, among other things, restrictions on the payment of cash dividends, capital distributions and purchase, redemption or retirement of shares of common stock. Under the terms of these agreements, $48,310,000 of the consolidated accumulated earnings employed in the business was restricted as of September 30, 1969.

(3) EXECUTIVE STOCK OPTION PLANS—

Under provisions of the 1967 Executive Stock Option Plan, 291,000 shares of common stock are reserved for options to officers and executive employees at not less than 100% of the fair market value at date of grant, exercisable not later than five years after date of grant. As of September 30, 1969, there are options outstanding for 132,600 shares, which are exercisable through 1973. During the year options for 9,000 shares were exercised under this plan for an aggregate price of $226,000.

Under provisions of the 1956 Executive Stock Option Plan, 2,900 shares of common stock are reserved at September 30, 1969, for options granted to officers and executive employees. These options are exercisable at varying dates through 1972. During the year, options for 32,500 shares were exercised under this plan for an aggregate price of $506,000, and options for 3,600 shares were terminated by lapse.

The effect of outstanding stock options in the computation of net earnings per share of common stock was insignificant.

(4) PENSION PROGRAM—

The company and its subsidiaries have trusteed and insured pension programs for substantially all employees. Total pension program costs were $4,605,000 for the year, including prior service costs and interest thereon which are being charged to expense in approximately equal amounts over a 30-year period. It is the company's intention to fund the past service costs during this period. Total pension program funds exceed the actuarially computed value of vested benefits under the plans.

(5) CHANGE IN CAPITALIZATION—

At the annual meeting on January 15, 1970, the stockholders will be asked to approve an amendment to the certificate of incorporation to authorize the issuance of preferred stock.

Financial Section

Charting the Course Ahead

"One of the vital responsibilities of today's OMC management is to provide for the continuity of effective management leadership in the years ahead. This will require increasing numbers of capable people with highly developed skills and adaptability to meet the challenges ahead. Today's computer technology is changing the management function as dramatically as it is changing manufacturing, engineering or sales," . . . W. C. Scott, President, addressing the OMC Conference on Managing.

Recognizing this, OMC has stepped up its Management Reserves, Replacements and Development program. This multi-faceted program now includes in-depth studies into the performance level, potential and development needs of individuals currently in our organization. Study courses, job rotation seminars, counselling and the like can then be employed to round out these management candidates on an individual basis.

The program also includes the planned introduction of carefully selected, well trained and capable young people into the lower ranks of management to assure a continuing supply of talent and experience.

A third phase of the Management Reserves, Replacements and Development program is the "OMC Conference on Managing," a series of training sessions conducted by outstanding professional conference leaders. Attended by all OMC Corporate and Division staffs, these seminars provide an opportunity for review, discussion and evaluation of the best thinking and practice involved in managing for today and tomorrow.

The scope of both the overall program and the current seminars can best be capsuled by again quoting from W. C. Scott's remarks in opening one of the four-day conferences.

> "As you know, at OMC we are constantly reviewing and improving our knowledge and practices in engineering, manufacturing and sales. We must do this to meet ever-changing conditions and to achieve our short and long-term objectives."
>
> "It follows that we must do the same with our management knowledge and practices if we are to fulfill our present and future responsibilities to shareholders, customers and society, as well as to ourselves."